SMALL BUSINESS

Few Banks Offer Accounts With Specialized Features

By LAURYN FRANZONI
Special to the American Banker

Despite the current emphasis on small-business banking, most institutions do not offer unique demand deposit accounts for these customers, according to a survey by Trans Data Corp., an *American Banker* affiliate.

In a poll of 77 banks and thrifts, Trans Data found that only 30% offer a demand deposit account specifically for the small-business market. Less than 10% of the respondents said they were considering or planning to offer such an account.

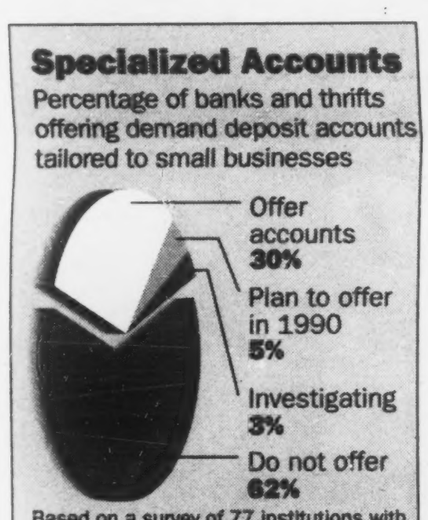
Furthermore, the typical small-business checking account is merely a simplified version of an institution's commercial account, but with added volume and balance restrictions that result in fee discounts, the researchers concluded.

Departure from Previous Survey

The Trans Data survey seems to indicate less dedicated activity in the small-business market than previous research had found. In a Consumer Bankers Association poll in 1989, 95% of the 66 member institutions that responded said they offered a small-business checking account with fees based on balances and activity. Fifty percent said they offered checking accounts with a single fee to small businesses.

The apparent disparity in the surveys may reflect semantics, according to bankers who track small-business banking trends.

"The checking account is the core of the relationship," said Sergio S. Ora Jr., senior vice president of small business and custom banking for Mellon Bank, Wilmington, Del. Mellon does not offer a customized account for small businesses but does group other services around its standard commercial checking account based on the small-business owners' needs.


Specialized Accounts
Percentage of banks and thrifts offering demand deposit accounts tailored to small businesses
Offer accounts 30%
Plan to offer in 1990 5%
Investigating 3%
Do not offer 62%
Based on a survey of 77 institutions with at least $1 billion in deposits

Most Common Features

Minimum balance	35%
No account analysis/ earnings credit	30%
Free processing of some items	26%
No minimum balance	26%
Unique fee schedule	13%
Overdraft line of credit	13%
Automatic investment	13%
Interest bearing account	13%
Noninterest bearing account	13%

Source: Trans Data Corp.

While some institutions may be trying to differentiate themselves by offering an account that carries a specific small-business name, Mr. Ora notes that it is likely that the "guts of the product may not be different from the guts of any other checking account."

Mr. Ora, who is a member of the Consumer Bankers Association's small-business committee, said larger institutions often find that cost and system maintenance prohibit them from offering a unique account for small businesses. Small institutions, he said, are more likely to create such accounts.

According to Trans Data, the characteristics of institutions offering small-business accounts vary as much as their small-business customers. The survey group had deposits ranging from $1 billion to $35 billion. Nearly 25% of those offering the small-business product have a deposit base of less than $2 billion, but an equal number had deposits of more than $6 billion.

More than half the survey group said their business was evenly split between retail and corporate customers. Thirty-five percent indicated they focus on the retail market, and 9% said they focus exclusively on the corporate side.

Banks generally define small-business customers by annual sales volume. Nearly four of every 10 banking respondents capped the business at $5 million. About one-third of the bankers include businesses with sales of $5 million to $10 million.

Range of Balances Is Wide

The average balance required by institutions for the small business account is $2,200, but the range is wide, from $250 to $7,500. Researchers say the accounts average 350 items each month.

Since most banks simplify their commercial checking account for the small-business customer, fees are usually lower than those on a standard commercial account, the survey found. Fees are also more likely to be based on enhanced services, such as cash management and automatic investment accounts.

The most common small-business account identified by Trans Data incorporates a minimum balance requirement, offers no account analysis or associated earnings credit, and provides processing of a limited number of deposited or paid items free of charge.

Ms. Franzoni is a freelance banking reporter in Springfield, Mo.

Supermarket Branches Gain Favor

Fifth Third and Mellon Among Those Adding Units

By ELLEN BRAITMAN

Fifth Third Bancorp said it is planning to expand its supermarket banking program by opening five to 10 new in-store facilities and placing more automated teller machines in Finast supermarkets in northeastern Ohio.

Cincinnati-based Fifth Third, which already operates 27 branches in Kroger stores in Ohio, Kentucky, and Indiana, is in the forefront of a growing movement among banks seeking to reach customers at more convenient times and places than present branches afford.

In another development reflecting the growing interest in supermarket banking, the flagship subsidiary of Mellon Bank Corp., Pittsburgh, last week opened the first of a planned 21 offices in Giant Eagle stores in western Pennsylvania.

Expansion Near Completion

Also, Union Bank, San Francisco, recently opened the 13th of 15 full-service branches that are to be in place by yearend in Southern California supermarkets.

Fifth Third's new branches will be in Finast supermarkets in the greater Cleveland area. Some of the locations had formerly been outlets of the failed Broadview Savings Bank and were closed after federal regulators seized Broadview.

Fifth Third keeps its branches open seven days a week, with extended hours on weeknights.

The $7 billion-asset Cincinnati banking company, as well as Cincinnati-based Kroger, have been pioneers in the supermarket banking business.

MELLON MOVES IN: On Oct. 1, Mellon Bank opened a branch near the dairy counter at Giant Eagle in McMurray, Pa.

A Growing Number

There are now 847 full-service branches operated by 196 banks in supermarkets across the United States, said John W. Garnett, executive vice president of International Banking Technologies, an Atlanta company that specializes in helping banks and thrifts open in-store facilities.

Mr. Garnett said placing bank branches in supermarkets is "one of the fastest-growing trends in banking today." Most of the growth has taken place in the past four years, and the number of new branches continues to rise.

A 1989 survey by Sheshunoff & Co., Austin, Tex., found that 8% of 250 banks in a nationwide sample planned to open supermarket branches this year – almost equaling the 10% that planned ATM installations.

Benefits Are Hailed

"Supermarket banking is an excellent opportunity for us to expand our one-stop shopping concept and better serve our customers, especially those who tend to shop when banks are traditionally closed," said William Holsworth, executive vice president and Ohio division president of First National Supermarkets Inc., which runs 32 Finast markets in northeast Ohio.

Broadview Savings offered limited banking services in some Finast stores until Sept.

See **BRANCHES** *next page*

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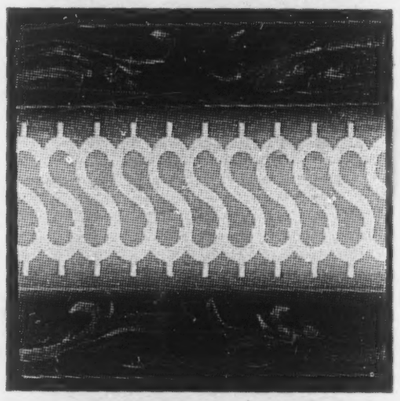

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BankAmerica's Travelers Checks Face Long Odds

By JEANNE IIDA

NEW YORK — BankAmerica Corp. and Barclays Bank face enormous obstacles in pursuing their goal of becoming No. 1 in the travelers check market.

The banks, which announced last month that they would create a joint venture to market Visa travelers check to other financial institutions, will focus on sales overseas, particularly in the Asia/Pacific region, a BankAmerica executive said last week.

But they will have to crack the U.S. market if they want to challenge industry leader American Express Co. in the near future. The United States is the single largest segment of the slow-growing market, which is expanding only about 5% to 6% a year.

ANALYSIS: *Follow-up on the news*

Because American Express does not separate worldwide and U.S. sales, the exact size of the U.S. market is not known. Spencer Nilson, editor in chief of *The Nilson Report,* a Santa Monica, Calif.-based newsletter, estimates that the United States represents 40% of worldwide travelers check sales.

Many U.S. banks offer American Express travelers checks to satisfy their customers' preference, and persuading them to switch will be no easy task. Only about 26% of Visa's worldwide sales are in the United States.

Venture Seen 'a Contender'

"There's no way they can challenge American Express for No. 1 worldwide," Mr. Nilson said of the Barclays/BankAmerica venture. But the combined operation could be a contender for the top spot outside the United States, he said.

Barclays and BankAmerica hope to capitalize on what they say are foreign bankers' fears of retail competition from American Express and Citicorp by offering so-called private-label checks. The Visa checks will bear the name only of the selling bank and not of the issuing bank.

Foreign institutions may be inclined to switch from American Express or Citicorp checks in the interest of not promoting a potential rival for retail business, according to the banks.

Potential for 'Synergy'

"If a bank is selling a brand of travelers check not consistent with the brand of credit card they're selling, there can be great synergy for them" in switching

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INSIDE NEWS

EARNINGS

BARNETT BANKS said real estate lending woes caused its third-quarter profits to plummet 60%, to $25.8 million. The results were a further sign of deterioration in the Florida market. *Page 2*

FINANCE

FORSTMANN LITTLE is building its war chest, hoping to take advantage of plummeting market prices for takeover targets. Commercial banks stand to benefit from any renewed activity. *Page 30*

THE FED and the Comptroller are proposing a change in risk-based capital guidelines that legal experts said could discourage growth in mortgage lending. *Page 29*

INTERNATIONAL

BANKS REJECTED Brazil's proposals for massive cuts in interest payments and demanded that the country pay at least part of its arrears before talks continue. *Page 12*

LEGISLATION

THE SENATE BANKING Committee approved $57 billion in new funding for the Resolution Trust Corp. and joined the House Banking Committee in clearing legislation that gives the Federal Deposit Insurance Corp. unlimited authority to raise premiums for banks and thrifts. *Page 2*

WASHINGTON

THE ONCE SACROSANCT tax deduction for mortgage interest is coming under fire again in the nation's budget-conscious capital. *Page 10*

CONSUMER

BANKAMERICA'S thrift unit in Oregon is catching flak for moving to slash interest rates on retirement accounts. *Page 6*

TECHNOLOGY

MELLON BANK will cease selling its old corporate treasury system and instead sell a more advanced one, in an effort to draw even with competitors in the cash management market. *Page 3*

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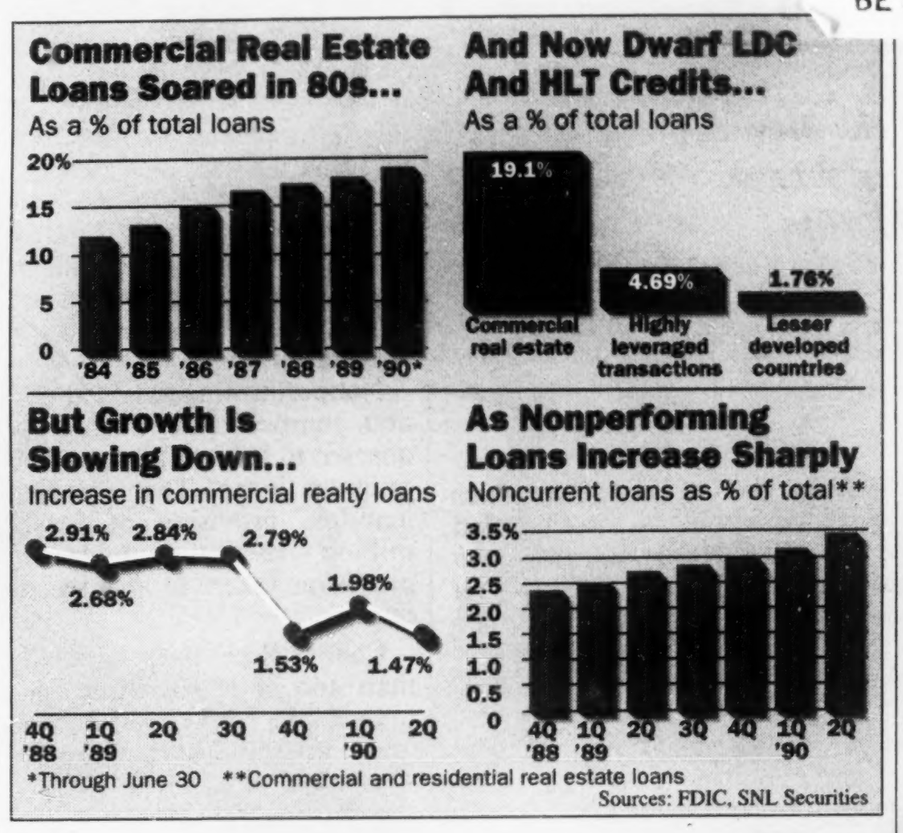
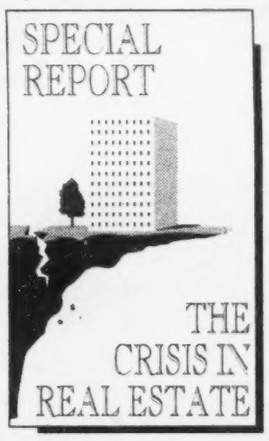


Fate of Banking in the 1990s Hinges on Real Estate Loans

By STEPHEN KLEEGE
First of a Series

The real estate problems that emerged a year ago have developed into a full-blown crisis that will pressure bank earnings, shape strategy, and – in some cases – threaten corporate survival for the rest of the decade.



While much has been made of loans to lesser-developed countries and the more recent phenomenon of nonperforming loans for highly leveraged transactions, banks have much more at stake in real estate.

In 1987, big banks' reserves for Third World debt dominated their earnings reports, as real estate is now beginning to do. But Third World debt amounted to just 3.7% of banks' total loan portfolios, according to figures compiled by Veribanc. Since then, the industry's exposure to lesser-developed-country loans has fallen to 1.76% of outstanding loans, SNL Securities' data indicate.

Similarly, exposure to highly-leveraged-transaction debt was only 4.69% of total loans at June 30, SNL calculations showed.

Exposure Huge, and Rising

By contrast, government data showed banks' commercial real

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RTC Weighs A Financing Plan to Woo Banks' Help

By BARBARA A. REHM

WASHINGTON — The Resolution Trust Corp. is developing a multiple-layer financing plan that would give banks a key role in the sale of $50 billion in real estate and nonperforming loans seized from failed thrifts.

The plan is the latest under consideration by the RTC to accelerate asset sales in bulk, meaning at least $500 million packages. It could end the impasse between banks and the bailout agency over the guarantees that the government must offer to coax private-sector lenders into the thrift cleanup.

The multilayered financing program – so called because it involves investor equity, junior collateralized debt, and senior bank debt – was developed by Andrew Lovegrove, an assistant to Comptroller of the Currency Robert L. Clarke, who is an RTC board member. Industry and agency sources explained its details last week to the *American Banker.*

Banks Leery of Risk

To date, banks have been unwilling to run the risk of lending against the RTC's low-quality assets. The banking industry has pressed the RTC to guarantee such loans. The bailout agency at first resisted, but its officials now recognize that the private sector needs enticements before it will help finance thrift cleanups.

The multilayer program is de-

See **RTC** *page* **26**

Tough Times Are Party-Pooper for ABA

By ROBERT TRIGAUX

WASHINGTON — Many of banking's traditional trappings have faded in recent years: weekday golf outings, free lunches in the corporate dining room – and the annual trip to the American Bankers Association convention.

Attendance at the October convention, usually held in a popular tourist city, has slipped conspicuously in recent years. For this year's meeting, which will open Saturday in Orlando, Fla., the ABA is expecting about 4,500 people, in contrast to the 10,000 to 12,000 attracted to such sites as Honolulu, New York, and New Orleans early in the high-rolling 1980s.

Behind the Slide

The 4,500 expected – down 18% from last year's attendance in Washington – include not only commercial bank executives but also their spouses and the salespeople exhibiting wares.

Bankers, consultants, and current and former ABA officials generally agree that the convention's decline is the result of many strong forces that work against a large, five-day gathering of the industry elite. Banks are under enormous pressure to cut costs, and trips to general conventions are often axed as superfluous.

Correspondent Business Fades

For decades, the ABA annual convention served as a showcase for big correspondent banks to entertain their downstream client banks, and for many bankers and corporate executives to enhance relationships with entertainment.

Today, the traditional correspondent business and the 'wining-and-dining surrounding it have all but evaporated, victims

See **TOUGH** *page* **8**

COMMENT / By Paul S. Nadler

Customers Switch Banks For Many Good Reasons

I have always felt in my 40 years of teaching banking and 30 years of writing this column every week that my job is to be an informed outsider who observes what bankers don't see themselves.

Maybe my best example of the role an outsider can play took place when the West Virginia Bankers Association invited me to meet with members of that state's legislature to try to raise the usury ceiling that limited what a bank could charge on a mortgage loan.

"I don't see any trouble getting a mortgage at 5%; I just got one last month," one legislator exclaimed. I laughed and said, "That's because you are in the legislature and on the banking committee. Who would turn you down? Try it without those advantages."

I think I made the point eventually.

Customer's View

Another area where I have tried to give bankers the outsider's view is in the customer's opinion of plastic – both credit cards and ATM debit cards. And, boy, have I had a lot of experience there!

Let's take credit cards first. I never believed in them, but I took one because a friend at a New York bank was trying to help his secretary win a contest in which every card you solicited won you points. Once I used the card and saw that I could buy an airline ticket without 10 minutes of writing identification information on the back of my personal check, I was hooked.

But in the years I have been a plastic junkie, I have changed charge cards from issuer to issuer for reasons that made sense to me and should have made sense to the banks that were issuing them.

Reasons for Switching

First, I switched from the New York bank that hooked me on plastic to a Philadelphia bank because it put your picture on the card – which I thought was a practical feature to give me protection.

I found, however, that no one ever looked at the picture. I could have used the name of a famous world villain on the card, and I am sure many stores would simply have said, "Good morning, Mr. Hitler, you look different without your mustache."

I gave up that card when they misinscribed a check I sent for $800 to be a check for $80 and sent me a nasty note saying that I was violating the fraud laws and would be prosecuted if I did not send the card back in 10 days. My letter of explanation was never answered, nor was my card returned.

Next I went to a bank in Worcester, Mass., that offered a 2% rebate on all purchases with its Visa card. It was wonderful. The only trouble was, it was too wonderful. They decided they

"Thinking of the customer too late is just as bad as not thinking of him at all."

didn't need New Jersey people getting this rebate, so they threw all nonlocal cardholders out of the plan.

Needing a card when the Worcester bank kicked me out, I went to my local bank, which got me a Visa card from another New York bank. But here again, I learned that what bankers think is good for the bank is not so good for the customer.

Stingy Policy Backfires

I asked for a raise in my credit limit from $3,500 to $5,000 and was denied, as the bank said it didn't offer this. Then, immediately after I switched again to the card of a bank I know well, where they would give me the $5,000 limit, the New York bank sent a congratulatory letter saying it was going to raise my limit to $5,000. Thinking of the customer too late is just as bad as not thinking of him at all.

I'll admit that I get other rebate offers among the many letters I get annually selling a credit card, but all now have a gimmick. I have to borrow money from the start at their cash advance rate to get the discount on purchases, which of course means that every usage of the card leads to an interest charge immediately. And I never get my 25 days of grace, which I cherish. (I probably would cut short a vacation to get back in time to meet my credit card payments before I lose the grace period and the bank charges interest.)

When Cash Isn't Cash

Then, along comes the Discover card with its rebate offer. I have visions of the old days with my card from the Worcester bank. But this only lasts until I get my first rebate. It is not cash but rather a Sears gift certificate, and I never shop at Sears. I feel cheated and have given up that card, too. (I keep the gift certificate as a reminder that advertising and reality often differ.)

Where do I stand now? All my bank cards charge a fee. None offers auto rental collision protection without a premium for a gold card. AT&T now offers a free card that does this. It looks good, and maybe it comes from the fact that the phone company thought more about what customers want and less about what the issuer wants. In any event, I'm switching.

And while I am at it, my local bank has announced that it will charge $12 a year for my ATM card – so that I can pay for the privilege of helping it reduce lobby traffic and cut teller costs!

I don't mind paying a fee every time I use the card at another bank's ATM. But to be charged to use a local machine and save the bank from having a teller give me my money is just plain crazy. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

COMMENT / By Mark J. Riedy

Healthy Regimen Needed For the Home Loan System

On Aug. 29, the Federal Deposit Insurance Corp. decided to postpone for 18 months a decision on allowing Wauwatosa Savings and Loan Association in Wisconsin to exit the Federal Home Loan Bank System.

That blip in the nation's financial history brings into sharp relief the need to address a crucial issue left over from last year's S&L legislation: the problems of the Home Loan system. Those problems threaten the stability of thousands of financial institutions and, if allowed to grow, could add billions to the cost of resolving the S&L crisis.

Dividends Help Earnings

For 50 years, the system has served both its voluntary (savings bank) and involuntary (S&L) members as a source of income in the form of dividends, bank services, and liquidity.

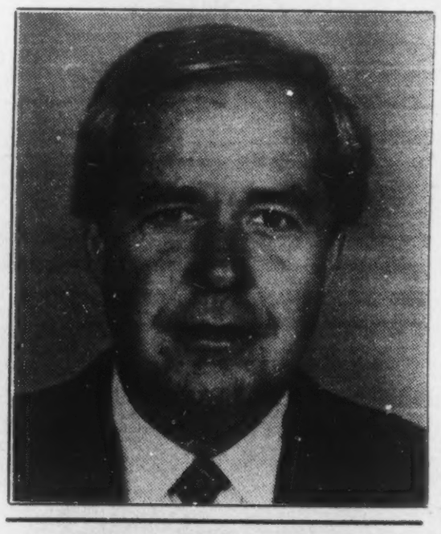
Members invest capital in the stock of one of the 12 regional banks in the system, and the historically high dividends contribute significantly to earnings. Members borrow money from their Home Loan banks to lend for housing in their communities at rates lower than those that would be available to relatively small borrowers such as Wauwatosa.

The system also assists in check-clearing, since members can maintain their own checking accounts in their regional Home Loan Bank.

Offering liquidity, services, high dividends, and attractive borrowing rates, the system has bolstered the competitive position of thousands of savings institutions across America. Today, about 25% of the savings industry's capital is invested in Home Loan Bank stock.

Reform Act Triggered Problem

So how did problems enter this picture? The triggering event was the S&L crisis, and the vehicle was the Financial Institutions Reform, Recovery, and Enforcement Act.



"About 25% of the savings industry's capital is invested in Home Loan Bank stock."

As that legislation was being considered last year, the Home Loan banks had $2.1 billion in unencumbered retained earnings. Congress, looking for every possible source of funding before going to the taxpayer, took all retained earnings through 1991 away from the Home Loan banks – just as it had taken $1 billion out of the system in 1987 – and used those funds to finance the process of resolving the insolvent thrifts.

The thrift-bailout law went further. It also required the system to contribute $380 million each year to help clean up troubled thrifts, starting in 1992. Many objected at the time that this action would result in serious long-term problems for the system. Singled out was the fact that the law called for a specific dollar contribution from the system rather than a percentage of income.

An Additional Burden

The law also required a contribution for affordable housing: at least $50 million each year through 1993, at least $75 million in 1994, and at least $100 million in 1995 and thereafter.

The significance of these contributions was clear to analysts. But the massiveness of the legislation and the speed with which it moved led lawmakers to put long-term possibilities on the back burner.

In the summer of 1989, the system was coming off of several years of record high earnings. The $300 million in continuing contributions to the program of resolutions, for instance, seemed reasonable – only 20% of annual income.

Predictions of a significant drop in Home Loan banks' income and questions about what the contribution might mean in such a case were set aside so that Congress could deal with more urgent problems.

Today, however, those predic-

See **HOME LOAN** *page* **11**

Mr. Riedy is president and chief executive officer of the National Council of Savings Institutions.

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